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SUBJECT: EU Automakers: Greater Flexibility in Implementing
EU and US Emissions Regulations Please

¶1. (SBU) Summary: On April 11, USEU held a Chatham House rules discussion with leading EU and U.S. automakers on the European Commission's proposal to reduce CO2 emissions from automobiles.. Participants stressed the need for as much flexibility as possible in both U.S. and EU regulation to reach car emissions targets, as well as increased information sharing and conversion on fuel standards and testing. The EU proposal has many faults, including unreasonable fines and an unworkable QpoolingQ system. This may be a potential area of positive US-EU cooperation on climate change issues. End Summary.

¶2. (SBU) On April 11, Special Envoy Gray hosted a meeting with representatives of leading EU-based automakers under Chatham House rules to exchange views on auto emissions policies and legislation. Participants were from: BMW, Daimler, the European Automobile Automakers Association, General Motors and Volvo. (Note: Ford was unable to attend, but reviewed the meeting later with Econoff and its comments are included. End Note)

Background: The EU Auto Emissions Proposal

¶3. (SBU) In December 2007, the European Commission (EC) proposed a regulation to limit average CO2 emissions from the new car fleet to 130g CO2/km (approx. 42 mpg) by 2012. Automakers could form a pool to meet their targets. If a manufacturer fails to meet its target, it will be required to pay an excess-emissions fine. Member States will monitor compliance. The European Parliament (EP) has called for binding targets by 2011 so that average CO2 emissions from the new car fleet reach 125 g/km by 2015 and 95 g/km by 2020.

4.(SBU) This fall, public disagreement between France and Germany flared up as German automakers (high-performance and heavy models) believed the proposal was too skewed to favor lighter car models (where French automakers excel). France and Germany have formed a high level working group to resolve their differences. European automakers also publicly raised concerns about: a too-soon compliance date; too heavy a focus on changes in vehicle technology rather than a more holistic approach; price increases (estimated at 3,000 Euros per car on average) and potential loss of EU

jobs due to relocation. The proposal will begin first reading this spring, with the idea that it could be finalized before EP elections in Spring 2009.

More Flexibility Please

5.(SBU) During our meeting, our participants cited a number of problems with the auto emissions proposal:

-- There should be greater flexibility in the means to achieve targets. Participants praised the U.S. Corporate Average Fuel Economy (CAF) standards for their flexibility, citing the QcarryoverQ credits concept as an example (automakers which exceed targets on a model and earn credits may apply those credits towards emissions targets three years earlier or later).

-- Adding QsupercreditsQ to the proposal would stimulate bringing alternative fuel vehicles onto the EU market. One participant gave the example that a new electric model should be able to claim ten times the number of credits a new gas model might generate.

-- The proposed fines are QhorrificQ: equivalent to a 450 Euro per ton CO2 penalty, ten times the penalty faced by other industries that fall under the EUQs emissions trading system.

-- A longer lead time is needed. US automakers have twelve years to meet targets, Japanese automakers eight, the EU has only until 2012. 60-65 percent of the 2012 EU models are now off the drawing board, thus only about 35 percent can be changed to be made compliant.

-- Pooling details remain undecided and participants saw few benefits. For 2012 pooling to work, at least one

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manufacturer has to over-achieve to qualify for credits; participants claimed that this would be nearly impossible, given the model situation outlined above. Even if an automaker did over achieve, the price they would charge for selling the credits would probably be only slightly below the penalty charge. Pooling outside QlinkedQ automakers is unviable as any automakers who form a pool with a lower credit price must offer both membership and that price to any other interested automaker.

-- Automakers should be able to buy/trade credits from stationary emitters.

-- All monies raised by the proposal are currently earmarked for the EU budget. Participants felt that, like the U.S. Energy Independence and Security Act, some or all of this revenue should be earmarked for auto R&D, retooling of plants, and other adaptation initiatives.

Taxes Good, Image Bad, DonQt Discuss Global Ideas

16. (SBU) Some automakers plan to launch very small, efficient vehicles over the next few years, but current demand is for large vehicles for comfort, power and safety and this is expected to grow. Additional fuel efficiency gains on large vehicles are limited, however and smaller vehicles also mean smaller profits. Our participants stressed that the biggest influences on consumer demand in Europe are car taxes and congestion taxes. One participant called for a harmonized EU CO2-based car tax, noting that in Spain and France such a tax is successfully driving consumers to purchase small vehicles.

17. (SBU) Our participants have tried extensive lobbying, as well as raising ideas such as letting automakers pay for emissions reductions in other sectors, and threatened to

leave Europe unless financial/credit allowances are provided. These efforts have gained no traction. All participants lamented the fact that EU oil companies have secured a QgreenQ public image through extensive outreach and advertising. Interestingly, two participants speculated that the oil companies and the food industry were behind the anti-ethanol/biofuels campaign, sponsoring seminars and studies to highlight the negative impact of such alternative fuels.

18. (SBU) Regarding global initiatives, our participants said automakers favor a global system focused on upstream activities, and favor an upstream approach to cap and trade for the auto industry such as the one contained in legislation to be considered on Capitol Hill. However, they can not/not say this publicly, as it gets twisted into claims that the car industry is trying to avoid becoming more efficient. Participants also stressed that any mention of a trading system is very dangerous, due to the EU proposalQs strict focus on car technologies, and that the EUQs Emissions Trading Scheme is inappropriate for cars. It is better to remain silent on such alternatives until the current round of EU legislating is finished.

US-EU Cooperation Ideas

9.(SBU) The Special Envoy asked if there were ways we could better harmonize regulations and standards. On this topic and broader US-EU cooperation, our participants suggested:

-- Greater flexibility and choice in both US and EU legislation in the methods for implementing regulations. Sharing US experience in designing flexible regulations could be of real benefit to EU legislators in showing that flexibility and choice can net positive results.

-- Greater information flow between the US and the EU on standards, regulations, studies, and results. Also exchanges of information on potential new regulations and legislation, such as CaliforniaQs car emissions proposal.

-- Harmonizing the US and EU fuel efficiency standards and agreement on a worldwide standard test cycle.

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-- Allowing technological innovations (e.g. sixth gear technology, electric steering) which make cars more efficient but are not/not examined in the emissions test to receive a credit value which would reduce the carQs overall emissions rate. This would reward innovation.

-- The U.S. should keep publicly supporting a pro-biofuel approach, noting the need for sustainability criteria, and provide objective information on ethanol and biofuels. Participants also stressed the need to keep working towards US-EU common standards on biofuels.

-- The U.S. should stress the need for energy security. The EU needs a more robust internal debate about moving away from oil. Efforts to foster this debate are helpful.

Comment

10.(SBU) According to US 2007 trade figures, EU exports of autos to the US were valued at approximately USD 41 billion and US exports of autos to the EU were valued at approximately 17 billion. Thus, we will need to keep an eye on the evolution of the EU proposal. One way we could have a positive impact Q and further our hands-on climate change cooperation on tough issues Q would be to engage further with the EU on auto emissions standards, in particular sharing lessons learned from our own system and recent legislative debate. End Comment